

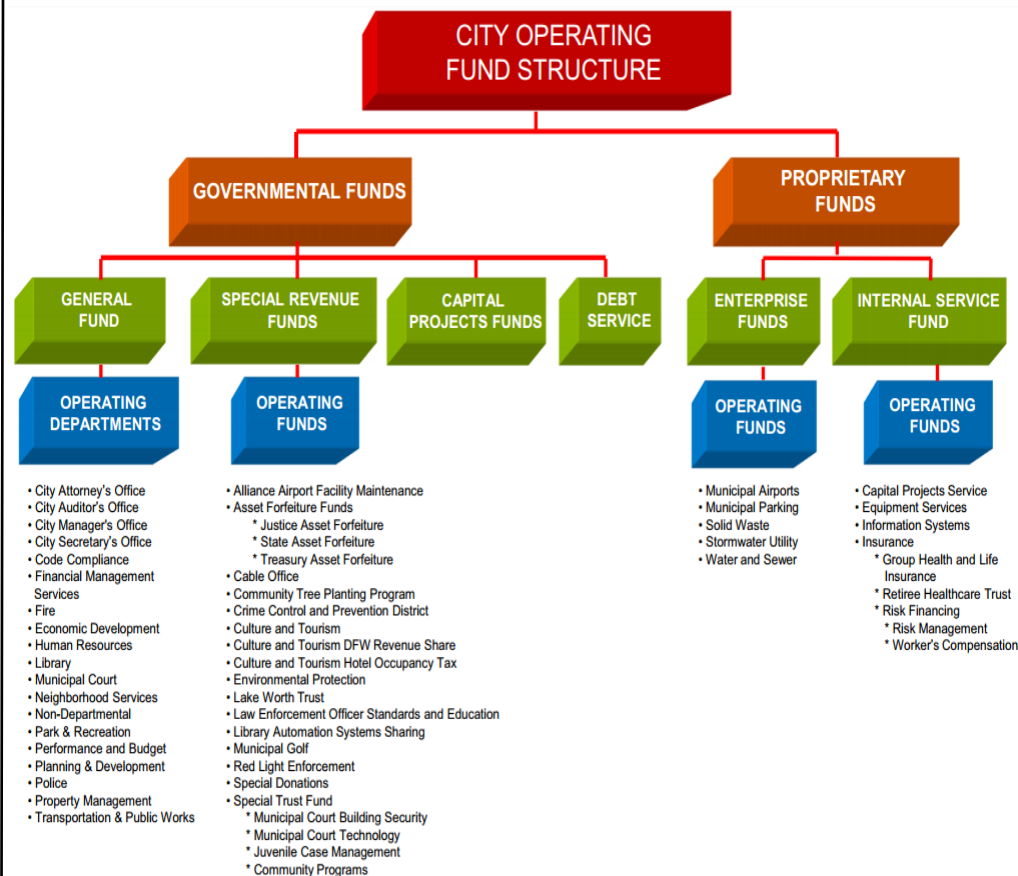
CHAPTER 3: FINANCIAL TRENDS

Population growth and economic trends greatly affect the financial planning process of the City of Fort Worth. City officials must consider this information, as well as local revenue trends, debt capacity, and the capital and operating costs of new facilities when responding to the needs of citizens. During periods of economic contraction, the City of Fort Worth is fiscally prudent and pays particular budgeting consideration to the continuation of providing services to citizens. Economic expansion and population growth call for detailed fiscal planning to provide new infrastructure and public services.

This chapter presents information on financial planning as it applies to a local governmental entity and summarizes past, present, and future financial trends of the City of Fort Worth. Monies received by the City are accounted for with a City Operating Budget and a Capital Budget. In the operating budget, accounts are grouped under the categories of Enterprise Funds, General Fund, Special Funds, and Internal Service Funds. The chart shown on the right lists specific departments funded through each. Enterprise funds account for city services that are financed and operated much like private businesses, where the costs of providing services (both operating and capital costs) are financed through user charges. The City seeks to eliminate all forms of subsidization to enterprise funds. The General Fund receives the largest amount of revenue in the overall City budget and accounts for the general tax-supported services provided by the City. Internal Service Funds are established to account for the financing of goods or services provided by one department of the city to another. Special Fund accounts are set up to track revenue and expenses incurred for the various items listed.

Funds received from grants are handled through a separate budget. The adopted budget shows a total allocation of \$93,720,056 from various grant sources to the City of Fort Worth. Significant sources include:

- United States Department of Justice for specified Police programs.
- Federal Aviation Administration for construction projects at City airports in the Aviation Department.
- Texas Department of Housing & Community Affairs for weatherization, energy assistance, and other community services in both the Park & Recreation Services and Neighborhood Services Departments.
- Texas Department of Transportation to Police for traffic safety initiatives, to the Aviation Department for airport maintenance, and to Park & Recreation Services for park projects related to bicycle and pedestrian mobility.
- Texas Parks & Wildlife Department to Park & Recreation Services for urban recreation and park improvements.
- U.S. Department of Housing and Urban Development to the Neighborhood Services Department for housing assistance and community development.



Operating budgets are divided into several different funds. Activities supported by tax dollars are included in the General Fund and Debt Service Fund. Enterprise Funds are those that are funded on a fee-for-service basis, such as the Water and Sewer Fund and the Municipal Airports Fund. Services that are provided internally by City departments on a fee-for-service basis for other City departments, such as the Equipment Services Fund, are specified as Internal Service Funds. Finally, Special Revenue Funds are financial accounts for special revenue sources. An example is the Culture and Tourism Fund, which administers revenue collected from the City's hotel and motel occupancy tax and from the operation of the City's public venues. Each of these fund types is included in the City of Fort Worth adopted budget. (Source: FY2017 Adopted Budget.)

Fort Worth has an abundance of resources and a diverse economy that has made it successful in attracting new businesses, investments, and jobs. According to the North Central Texas Council of Governments (NCTCOG), the total employment for the City of Fort Worth will continue to rise at a rate of 3.0 percent annually through 2040. The city has ample land for growth, excellent job-training facilities, a growing population, and adequate infrastructure in fully developed areas. These positive factors are an indication of economic prosperity, which typically leads to an expansion of the economic base and increased revenue for the City.

Revenues

The economic outlook for Fort Worth is encouraging, with both property tax revenue and fee income continuing to grow. Revenue growth enables City staff to implement the FY2016 budget priorities, while also allowing the City to cover overages in General Fund costs while contributing a small amount to the City's fund balance.

Property Tax

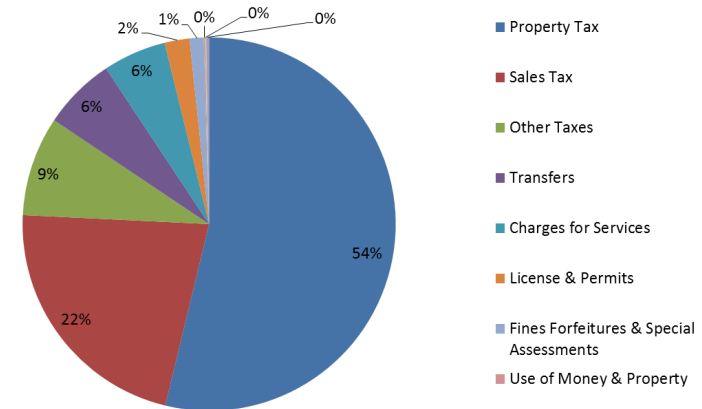
The FY2017 adopted budget decreased the City's property tax rate by 2¢ to \$0.8350 per \$100 net taxable valuation. The total appraised value of the City's property tax roll increased \$7.9 billion or 11.8 percent from the July 2015 certified roll to the July 2016 certified roll. Adjusted Net Taxable Value (which is the Net Taxable Value plus the value of incomplete properties and properties under protest), increased \$4.9 billion or 9.9 percent in the same time period across all properties within the City of Fort Worth. Adjusted Net Taxable Value is the basis for the City's property tax revenue calculation.

As a result of the increase in values, the City is projected to collect \$20 million more in General Fund property tax revenue (which includes delinquent, penalty, and interest) than in FY2016 for a total of approximately \$338.7 million. The increase in property tax revenue from FY2016 is primarily due to a 9.9% increase in the Adjusted Net Taxable Value for properties primarily within the Tarrant County Appraisal District for FY2016. The graph to the right shows the ten-year property tax base trend.

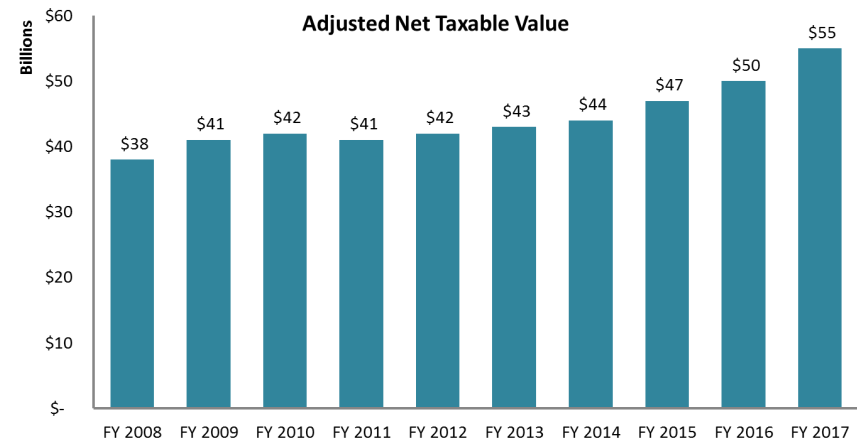
The estimate of the FY2017 tax revenue is based on the certified roll provided by the central appraisal districts of Tarrant, Denton, Wise and Parker Counties in July 2016. The assumed collection rate is 98.5 percent. Other factors affecting current property tax revenue are the exemptions to assessed valuation authorized by the State and additional exemptions and freezes granted on a local option and approved by City Council. The most significant exemptions approved by the City Council are the general homestead exemption of 20 percent available to all residential homestead properties, an additional \$40,000 homestead exemption granted to senior citizens, and the Freeport exemption for commercial goods to be exported from the state.

When updating the five-year financial forecast and preparing the budget for City Council consideration, staff analyzed many of the factors affecting property tax revenue, including anticipated population growth, historical change in values for residential and commercial properties, current and projected permitting data, the

General Fund Revenue: FY 2017
\$639,004,871



Property tax and sales tax revenues account for the majority of money in the General Fund. Budget percentages of revenue for FY2017 are shown in this chart. (Source: FY2017 Adopted Budget.)



Adjusted Net Taxable Value is the basis of the property tax revenue forecast. It is the sum of the values of all properties in Fort Worth less exemptions. It reflects both the growth in existing property values and new property development. (Source: FY2017 Adopted Budget.)

impact of foreclosures, as well as exemptions and protests. Staff also evaluated the allocation of the levy amount, and resulting availability of revenue for operations and maintenance (O&M), as compared to the amount available to repay the City's debt.

Sales Tax

At approximately 22% of the General Fund FY2017 adopted revenue budget, sales tax collections are a major revenue component. For the Crime Control and Prevention District, sales tax revenue represents the largest revenue source. Economic conditions in FY2016 continued to improve with the 12-month rolling average of sales tax collections achieving new record highs throughout much of the year. This trend is positioned to continue through FY2017 given that the Dallas-Fort Worth area was named one of the top retail construction markets in 2015 calendar year and in 2016 it was noted that Dallas-Fort Worth leads the nation in industrial building construction, according to the business section of the Dallas Morning News. There are continued increases in permitting volumes as well as new and existing homes values. Fort Worth's net sales tax collections in October 2016 totaled \$11,385,882, up from October 2015 by \$1,154,804, or 11.3 percent. The city anticipates collecting \$140,468,044 by fiscal year end.

Among large Texas cities, Fort Worth is continuing a positive trend with year-to-date sales tax collections also up 3.5% over the same period last year, which puts Fort Worth's sales tax performance ahead of Houston, San Antonio, and El Paso.

There were no significant audit adjustments at the time of the third quarter re-estimates for FY2016, and the City continues to follow the 20-year incremental repayment plan agreement with the State Comptroller to refund the \$9.3 million in audit adjustments identified in FY2016. As of June 2016, the City has \$7.01 million remaining to repay with the last payment expected in August 2031.

Expenditures

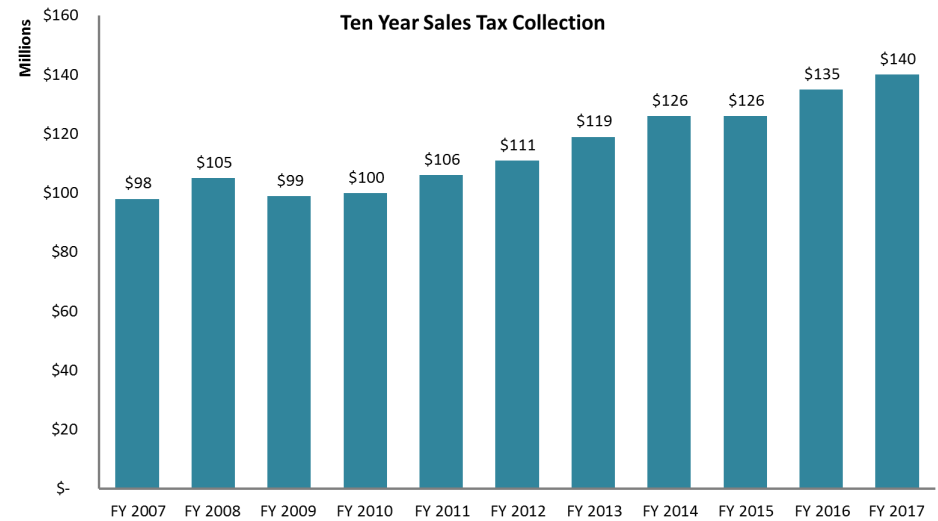
Adopted General Fund Expenditure Budget

FY 2016 Adopted	FY2016 Adopted	Percent Change	Dollar Change
\$610,902,639	\$639,004,871	2.6%	\$28,102,232

For FY2016, General Fund expenditures are keeping pace with revenues. However costs are increasing due to a variety of factors, including rising supply and contractual service costs, program and service level improvements, and personnel cost increases.

Salary and Benefits Changes. In keeping with the City's commitment to invest in its employees, the following salary and benefits changes are included in the FY2017 budget:

- Salary increases for sworn Police Officers as stipulated by the Meet and Confer contract.
- Fire Civil Service employees will receive salary increases in accordance with the Collective Bargaining Agreement between the City and the Fort Worth



Sales tax revenues have steadily increased from 2010. The increases are primarily due to improving economic conditions demonstrated by actual receipts reported by the State Comptroller's Office. Current data suggests substantial collection growth in retail and wholesale trade will continue to drive the increases. (Source: FY2017 Adopted Budget.)

Budget Growth Areas: FY 2007-2017

	FY 2007	FY 2017	Change
*Police	\$ 146,349,375	\$ 226,302,414	54.6%
Fire	\$ 92,121,205	\$ 138,966,469	50.9%
Parks	\$ 28,262,315	\$ 43,847,073	55.1%
Code Compliance	\$ 9,285,634	\$ 19,983,542	115.2%

* Police expenditures exclude Crime Control and Prevention District.

The departments shown have seen the largest budget growth in the ten years between FY2007 and FY2017. (Source: FY2017 Adopted Budget, amounts shown in millions)

Professional Firefighters Association.

- The continued implementation of the compensation and classification study for general employees as well as a budgeted 3% of salaries dedicated to pay for performance.

General Obligation Debt

The City will utilize seven debt service funds to accumulate the resources to make principal and interest payments on 45 existing bond issues as of July 25, 2016. The total FY2017 debt service requirements for all funds' outstanding debt is \$203,460,869.

Of the total amount projected for the current fiscal year (FY2017), \$102,073,815 is for general obligation bonds, certificates of obligation, loans, and tax notes. Current property tax collections cover most of the debt service, assisted by delinquent property tax collections, a transfer from CCPD, and investment earnings. Projected revenues to cover debt service are as follows:

Current Year Tax Levy	\$88,857,166
Other Revenue, Including Existing Fund Balance	<u>\$7,102,112</u>
	\$95,959,278

State property tax law allows the City to levy a property tax to pay for its long-term (over 1 year) debt obligations. With a tax rate of \$0.8350 per \$100 in value for the current fiscal year, \$0.1735 (20.8%) of the total tax rate is devoted to pay long-term debt service obligations.

The maximum tax rate for all of the City's obligations is \$2.50 per \$100. Administratively, the Texas Attorney General will only allow up to \$1.50 per \$100 for all tax supported debt. This amount is calculated at the time the bonds are sold and based on 90% collection rate. Self- supporting debt does not count against the \$1.50.

Challenges and Opportunities

Higher valued new homes and businesses will increase property tax revenues, but more property owners will require city services. A healthy balance of commercial and residential uses is desirable to maximize sales tax collections in addition to property taxes.

It is important for the city to continue growing in a contiguous pattern, thereby reducing leapfrog development and avoiding unnecessary infrastructure costs. Generally, developers pay for on-site improvements, such as new local streets, storm water control, and water and sewer lines within subdivisions. However, the cost of upgrading or connecting collector and arterial thoroughfares, as well as building or upgrading public facilities, is borne by the City. Successful implementation of the growth center concept will aid Fort Worth in accommodating anticipated growth, while more efficiently allocating funds needed to construct capital improvements.

Fort Worth has demonstrated fiscal prudence during recent years by reducing debt load and reducing the tax burden on citizens whenever possible. The next few years will challenge City leaders as they provide for continued population growth while maintaining an acceptable level of quality services for citizens.

To assist in meeting these challenges, the City has recently taken several actions. These actions include:

- Developing budgetary guiding principles that allocate operating revenues to ensure proper support for operations, capital, and debt activities.
- Updating fund reserve policies to reflect the needs of each fund and to effectively balance the current and future needs of the City.
- Improving the 5-year operational financial plans by analyzing historic trends and establishing projections based on key drivers.
- Integrating the impacts of capital delivery and obligations into long range projections and base budget development.
- Adopting 5-year capital improvement plans for select funds that address the anticipated capital projects for the next 5 years with associated operating costs and identified funding sources.